International Journal for Research in Engineering Application & Management (IJREAM)
ISSN : 2454-9150 Vol-06, Issue-12, MAR 2021

Goods and Service Tax, a revenue loss or gain: A Comparative study of revenue collection in West Bengal

Ayush Kumar Sharma, Assistant Professor, Amity University Kolkata (West Bengal), India, asxavierian74@gmail.com

ACMA Mukesh Bhatter, Faculty, Institute of Cost Account of India Kolkata (India), mukeshbhatter2014@gmail.com

Abstract: GST, a process towards standardization of taxes across the country, is being criticized for its near-term impact on inflation and to some extent impacting states' autonomy in deciding tax rates. Rolling of GST by states was very challenging; at one hand it must take care of its revenue on the other hand state has to maintain the balanced rate on goods and services. Goods and service tax Act came into force from 1st July 2017 under Central Goods and Service tax Act 2017 and Integrated Goods and Service tax Act 2017.. On 1st July 2019, Goods and service tax has completed its 2nd anniversary and so its outcomes need to be communicated with special reference with revenue collection.

This research paper aims at evaluating the progress shown by the one of most important tax reforms undertaken after the great economics reform of 1991. Goods and service tax is just like an infant child which is going through its growth stage/implication phase; therefore, in this paper evaluation has been made based on impact of GST on Revenue collection of West Bengal over 2 year after its implication as compared to that taxes collected before 1st July 2017 from different Indirect taxes. The constitutionally guaranteed compensation mechanism under GST ensures, in effect, a 14% annual growth in the states' revenue. A cursory look at their past performance will reveal that most states had previously registered growth rates much lower than 14% from the taxes that later collapsed into GST.

Keywords — Goods and Services Tax (GST); State Revenue Collection; Compensation mechanism, Integrated Goods and Service tax (IGST), Central Goods and Service tax (CGST), and CAG.

I. INTRODUCTION

Goods and service tax is right one of the most famous topics in the market. Goods and Service tax (GST) is the outcome of a long struggle which start in 2000 under NDA government. As per the power given to government to levy tax under seventh schedule of Indian constitution, all the taxable items have been divided into 3 categories (List) namely: -

1. Union List
2. State list
3. Concurrent list

Due to introduction of Goods and service tax, all the items from union and state list have been bought under concurrent list (except petroleum product, alcohol for human consumption and natural gas etc). This means that now central and state government can levy tax simultaneously on all taxable goods and service except that covered under schedule III. But it was not so easy, as due to this state were considered about loss/ decrease in the amount of their revenue collection as their previous autonomy has lost. Therefore, central government came up with constitutional compensation scheme for state for next five year under which 14% revenue has been guaranteed to the state to make up their losses during implication phase of Goods and Service tax (GST). There are many issues relating to accruing of revenue (GST), as GST is the destination/consumption-based tax. So, in case of inter-state sales the revenue will accrue to the states where consumption of goods or services takes place as per Section 10 to 13.

However, in Pre-GST scenario Central sales tax as well as VAT was also charged on supply of goods but CST being origin-based tax is replaced by Destination based tax. Due to this the manufacturing state is going to lose its portion of revenue from inter-state sales. As per the various reports of government and the analysis of renowned economist of the country states that GST perhaps would have the positive as well as negative impact on the state finance and such impact would vary across states.

As per section -7 (c) of the GST (Compensation to State) Act 2017 **[1],** state government have been given grantee covering 14% minimum revenue collection and to cover the

 DOI : 10.35291/2454-9150.2021.0077

same loss on account of implication of goods and service tax for a period of 5 years under Goods and Service (State compensation for loss of revenue) bill. Under this the following highlights were specially made:

- As per Sec 4, Base year to be the financial year for which losses are compensated i.e, 2015-16
- Only taxes subsumed will be considered.
- Local body's taxes (other than state taxes) are to be excluded from consideration.
- Cess for 5 years (GST compensation cess) to be levied.
- Input tax credit of cess will be allowed.

Under this mechanism, central government pays compensation on quarterly basis to state government for loss to cover minimum 14% state revenue share, but the final settlement needs to be made only after an audit report by CAG is submitted to central government. Any excess amount at the end of 5 years, so credited into GST compensation fund will be divided among state and central government equally. And any excess payment made to state, as found after CAG's report would be adjusted in the next financial year(s).

The loss of revenue to a state will be computed after comparing the amount actually realized under GST mechanism and that as it would have been realized under old system of indirect tax regime after considering 14% increase over the base year of 2015-16.

II. OBJECTIVE OF STUDY

The present research is confined to impact of Goods and Service tax on the state revenue collection during FY- 2015-16 and FY- 2017-18. These two financial years have been chosen so as to judge the impact of revenue collection of a state in pre and post GST regime [2]. Today, everyone wants to know what the impact of Goods and service tax is on Indian economy, whether it has increased the burden of deficit on state burden government. To provide answers to such query an analysis has been made comparing income from the revenue collection by West Bengal state government in FY 15-16 and 17-18. In this paper a detailed discussion is made regarding the followings: -

a. What is the quantum of deficit in state annual budget during these years?
b. What is the amount compensation received by West Bengal government under Goods and Service tax compensation mechanism?
c. What is the provision of compensation mechanism to be satisfied?

Although both central and state is collecting tax revenue in the traditional indirect tax model as constitutional power given to them under different articles like 246A, 254 and 279 and many more. After a long struggle which was started by Atal Bihari Vajpayee during 2000, BJP finally made this new tax reform enforced on and from 1st July 2017[3]. It was continuously criticized by different groups of intellectuals in India over last 2 Financial years. On the other hand, another group of professional intellectuals continuously supported this great reform. On the eve of 2nd anniversary of Goods and Service Tax, the answer to the effectiveness of this tax reform system was much needed.

III. LITERATURE REVIEW

From the inception since 2006, when the then finance minister P. Chidambaram first clarified his intension to introduce GST by 2010, GST remained an important matter of study for every researcher as well as for every citizen too. GST has been adopted in India from France and Other country, but now India has completed all most 2 successful years with GST. Therefore, references have been taken from different researches made during 2010-2018 on GST in India. Some of the important conclusion have been made by various scholar around the world regarding various matter included in GST

Girish Garg (2014)

The paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario. He stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need that has arisen for the change in tax structure from old indirect model to GST model. In this his made an analysis on GST as general, considering its features, objectives and impacts on different sector of market.

Halakhandi, (2007)

GST was supposed to be introduced in India way back in 2010 after its first proposal in 2006 by the then Finance minister. But it has been getting postponed due to various reasons major one being getting to a consensus between the various states and the Centre for compensation. The author in his paper has discussed the existing laws in India for indirect taxes i.e. the VAT laws in various states with their advantages and disadvantages, the impact of the proposed GST, the compliances under the proposed GST etc. The author has also used various numerical examples to demonstrate how GST is cost effective.

Ambily T. Chacko and Dr. Santhosh Kumar S. (2016)

The paper is an analysis of impact of GST in Kerala state. The author has made a general analysis of GST on different goods and service as intra state revenue comparison over the period from 2009-10 to 2015-16. In this paper they have shown GSDP trend and GDP growth rate over 2009-10 to 2015-16. Here special reference has been given to daily consumption goods in the state of Kerala like Coconut, Coir, Rubber, coffee and Small industries. But the paper failed to compare the difference in state revenue in pre and post implementation period.

 DOI : 10.35291/2454-9150.2021.0077

International Journal for Research in Engineering Application & Management (IJREAM)
ISSN : 2454-9150 Vol-06, Issue-12, MAR 2021

IV. RESEARCH METHODOLOGY

In this research paper is based on purely secondary data relating to FY 15-16 and FY 17-18. The secondary data has been used due to its more reliability feature as compared to primary data which may suffer two type of error in this type of research (discussed later).

i. **Data Collection:**
As collection of data is the one of the most important tasks in a research analysis. Therefore, in this research paper only secondary data have been selected as primary data in this regard would have suffered two types of error:

- **Error regarding selection of sample size for serve; and**
- **Error regarding responses made, as people either don't have proper knowledge or can be distorted by rumors in the market.**

The data has been collected from different secondary source of sate or finance ministry published by government authorities over last 2 financial years like: -

a. Online State government websites for secondary data collection and analysis.

b. Economist's explanation regarding GSTs implication and working mechanism.

ii. **Data Analysis:**
After Collection of data, analysis plays a most important role. For this, in this paper an analytical and explanatory method of analysis has been used with the help of comparative and common analysis of revenue inflow between that of FY 15-16 (pre-GST period) and FY 17-18 (Post GST period). On the other hand, to judge the percentage composition of each tax in the total revenue use of common size statement analysis has been taken by converting each component as a percentage of total revenue collection of FY 2015-16 and FY 2017-18.
While making conclusion regarding the impact an assumption has been made that the level of economic activity i.e, consumption pattern during the period considered of FY 15-16 and FY 17-18 remained same or unchanged. This paper has been prepared to clarify the basic reasons behind constitutional amendment and to show how goods and service tax can be beneficial to society. This analysis is based upon revenue collected in West Bengal region as intra state revenue comparison during the said study period.

V. ANALYSIS

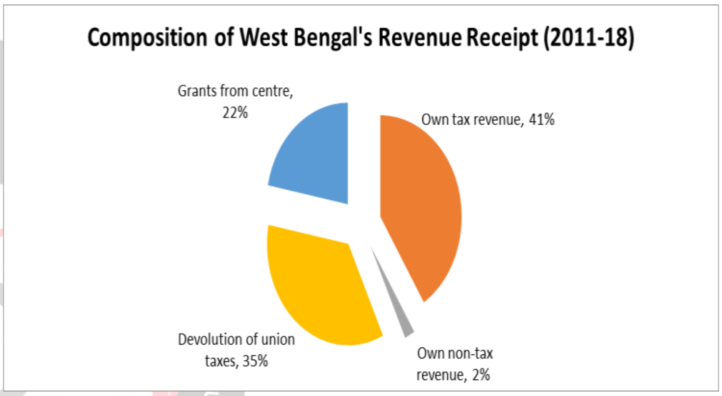
In this report, discuss on recent developments that might affect finances of the West Bengal government has been made. The Receipts of any state can be broadly classified into revenue receipts and capital receipts. States primarily depend on two revenue sources to meet their expenditure requirements – their own revenue and central transfers [4]. The former indicates revenue generated by states on their own, while the latter consists of receipts from the central government as share of taxes and grants. In addition to these, states also rely on borrowings to finance their expenditure, which is a part of the capital receipts.

States' revenue receipts can be categorized into four components:

(i) Own tax revenue
(ii) Own non-tax revenue
(iii) Devolution of union taxes
(iv) Grants-in-aid from Centre.

The former two components add up to give state's own revenue, and the latter two can be classified as central transfers.

Figure 1: Showing composition of West Bengal's Revenue receipt during 2011-18



Sources: State Budget Documents; RBI State of State Finances; PRS.
In the above diagram, we can see that around 22% of the state revenue of state government is been coming from central government and west Bengal state government is able to arrange only 43% of their expected revenue during 2011-18. Around 35% Centre taxes has been removed over this period of 7 years. But due to advancement of Goods and service tax Act, following problem can be faced by state government of west Bengal [5].

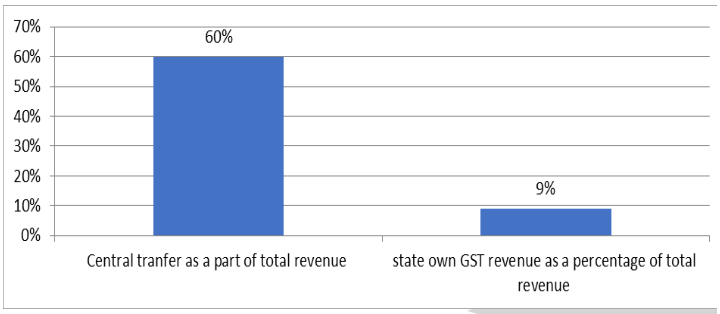
- **<u>For the state of West Bengal: The flexibility on revenue receipts would be reduced after GST</u>**

GST in its process towards standardization of taxes across the country would impact states' autonomy in deciding tax rates. With the introduction of GST, many indirect taxes levied by the states have been replaced. While these taxes were completely under the control of each state, GST rates are now decided by the GST Council. This implies that states have limited flexibility in making decisions regarding tax rates on goods and services. Therefore, higher reliance on GST receipts for revenue reduces states' autonomy, as these receipts depend on tax rates decided by the GST Council.

 DOI : 10.35291/2454-9150.2021.0077

GST revenue of a state can be categorized into three components: (i) state's own GST revenue, (ii) devolution of Centre's GST revenue, and (iii) compensation, if any. While the first component comes under state's own revenue, the other two components form a part of central transfers. With the implementation of GST, the autonomy of states is expected to reduce and effectively it could be said that West Bengal Government will have limited decision-making powers on generation of 60% of their revenue.

Figure 2: Bar diagram showing percentage of central aids and own contribution to total receipt



Sources: State Budget Documents; PRS

Note: Though GST limits the flexibility of states, the centres guarantee of 14% annual growth in this tax revenue, for a period of five years, would take care of states' revenue. In case of less than 14% growth, states will receive compensation from the Centre [6]. West Bengal have received GST compensation of Rs 1608 crore for FY 2017-18.

- **West Bengal would not experience any wide change in share of own tax receipts after implementation of GST**

As discussed earlier many goods and services which were earlier taxed either by the states or the center are now subjected to GST by both. Also, earlier, states used to get tax revenue from sale of goods in their jurisdiction. At present, the revenue generated by levying GST is split equally between the center and the destination state, to where the goods and services are supplied by the sellers [7]. As a result of the changes in taxation structure, the share of own tax receipts in revenue is estimated to change for some states. As per the
Report published by PRS India , the proportion of own tax receipts in revenue is estimated to increase for Tamil Nadu, while there could be a drop of nearly five percentage points of this proportion for states such as Bihar, Gujarat, Jammu and Kashmir, and Karnataka. As per the report, the proportion of own tax receipts in states' Tax revenue would remain unchanged for the state of West Bengal.

- **Post GST West Bengal's own tax revenue would grow faster than GSDP in comparison to own tax-GSDP ratio**

Own tax revenue has been the largest source of revenue (41% of total revenue) for West Bengal during 2011 to 2018. Thus, a state's ability to generate tax revenue on its own impacts its overall revenue significantly. Typically, own tax revenue consists of receipts from: (i) goods and services tax (GST), (ii) sales tax/value added tax (VAT), (iii) state excise, (iv) stamps and registration fees, (v) taxes and duties on electricity, and (vi) land revenue, among other taxes and duties.

Own tax-GSDP ratio is a measure of a state's potential to generate taxes from its economy on its own [8]. A higher ratio indicates a better ability to harvest taxes from the economic activities in the state. The growth rate of own tax revenue vis-à-vis the GSDP growth rate shows how the ability of a state to generate tax revenue on its own changes as its economy grows. States which have a higher growth rate of own tax revenue than that of GSDP would be able to increase their own tax-GSDP ratio, i.e., their tax generation potential, over the years. In contrast, the ratio would decrease for states whose own tax revenue is growing at a lesser rate than their GSDP. Post GST own tax-GSDP ratio for the state of west Bengal would improve considerably however it would be lower than the average of own tax-GSDP ratio of states (6.6%) during 2011-12 to 2017-18.

Table 1: Data of Total revenue collection from taxes subsumed in GST in pre and post GST period

Rs. In Million

Collection from Taxes Subsumed in GST				
Types of Tax	**Collection in 2016-17**	**Collection in 2017-18**	**Absolute Change**	**Growth %**
Entry Tax	9,343.20	15,319.50	5976.3	64
Entertainment tax	1,110.60	389.9	-720.7	-65
betting tax	152.6	20.9	-131.7	-86
Luxury tax	789.4	282.9	-506.5	-64
Excise duty on medicinal and toilet preparations	243.1	55.4	-187.7	-77
State GST	0	88,264.40	88264.4	88264
WBVAT	183184.1	62,781.90	-120,402.20	-66
Central sales Tax	22,669.40	5,720.70	-16948.7	-75
Share of IGST	0	53,229.10	53229.1	53229
Total collection	**217492.4**	**226064.7**	**8572.3**	**4**

 DOI : 10.35291/2454-9150.2021.0077

Table 2: Common size statement for analysis of percentage of each tax as a percentage of Total revenue Rs. In Million

Collection from Taxes Subsumed in GST				
Types of Tax	**Collection in 2016-17**	**Collection in 2017-18**	**% of Total Revenue**	**% of Total Revenue**
Entry Tax	9,343.20	15,319.50	4.3	6.8
Entertainment tax	1,110.60	389.9	0.5	0.2
betting tax	152.6	20.9	0.1	0.0
Luxury tax	789.4	282.9	0.4	0.1
Excise duty on medicinal and toilet preparations	243.1	55.4	0.1	0.0
State GST	0	88,264.40	0.0	39.0
WBVAT	183184.1	62,781.90	84.2	27.8
Central sales Tax	22,669.40	5,720.70	10.4	2.5
Share of IGST	0	53,229.10	0.0	23.5
Total collection	**217492.4**	**226064.7**	100.0	100.0

Source:(India, 2018) **Annual report of Finance ministry, West Bengal State government 2017-18**

VI. FINDINGS OF STUDY

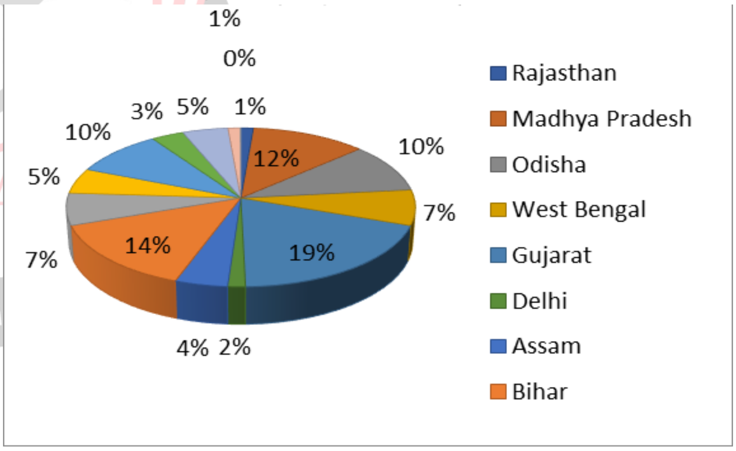
From the above analysis it is very clear that the revenue inflow of West Bengal has increased by around 4% Approx. over the revenue received during pre-GST period. It can be noticed that total collection of revenue from tax to West Bengal during 2016-17 was around Rs 2, 17,492.4 million and the same during 2017-18 was around Rs 2,26,064.7 million. Although the state governments were concerned about their revenue loss due to collaboration of 17 different types indirect tax into one new system of tax GST on 1st July 2017. West Bengal remains one of top gainer during this tough time as they emerge out of their revenue deficit. As per an estimation by state government budget document prepared by PRS, west Bengal state government are excepting a positive impact by the end of FY 19-20 of around 3%.

If a compare the revenue inflow of west Bengal with rest of the other states in India, it can be noticed that West Bengal revenue department is in a very good position. When other states are suffering from revenue deficit and are depending upon compensation mechanism for their own expenses [9].

Table 3: Goods and Service compensation released during Financial Year 2017-18 (State Wise) Rs. In Million

GST Compensation		
Serial No.	**Name of State**	**Total receipt**
1	Rajasthan	2899
2	Madhya Pradesh	26680
3	Odisha	22640
4	West Bengal	16080
5	Gujarat	42770
6	Delhi	3260
7	Assam	9800
8	Bihar	31400
9	Haryana	14610
10	J & K	11600
11	Kerala	21020
12	Karnataka	7535
13	Himachal Pradesh	10590
14	Goa	2810
15	Arunachal Pradesh	150

Figure 3: GST compensation for FY 2017-18 as percentage of total revenue (State wise)



Source: Authors analysis with the help of Ms-excel

VII. CONCLUSION

In the above table it can be seen how west Bengal revenue compensation is around 7%, which is six highest in the Indian sub-continent. After this analysis it was very clear that the concerned of state and certain group of people from Bengal regarding introduction of GST on their revenue loss is now null and void. As the state is continuously progressing over last two years and state is reducing its dependence on central government for devolution of taxes from union government. It is also very clear that government has made the system of compensation mechanism more transparent and reliable by defining roles

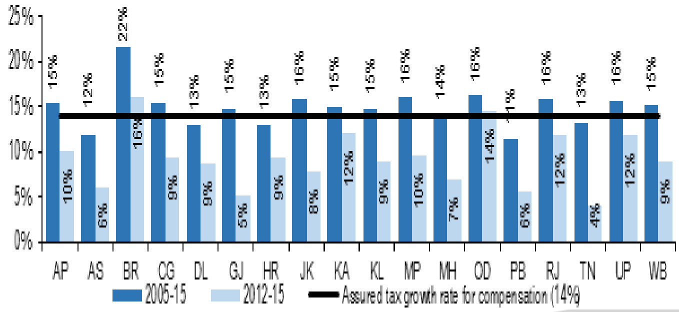
 DOI : 10.35291/2454-9150.2021.0077

ISSN : 2454-9150 Vol-06, Issue-12, MAR 2021

of organizations like Comptroller and Auditor general of India (CAG) [11].

GST Subsumes various taxes levied by states such as Sales tax/VAT (except on petroleum and alcohol), and entertainment tax. But only less than 23% of the total revenue receipts have been subsumed, keeping the two most important revenue producing item out of GST. This was done as state governments were not ready to impart with main source of their revenue receipts.

Figure 4: Average tax growth rate showing requirement of Compensation by some State government under GST



Sources: State Budget Documents; PRS

States which witness tax revenue growth of less than 14% after the implementation of GST, will be compensated by the Centre. Tax revenue of states has grown at an annual rate of 9% in the recent years (2012-15), which is much lower than earlier [10]. If this slowdown continues, several states may be eligible for compensation from the Centre, as seen in Figure 4 above. But the above calculation is based on total tax revenue, including sales tax on alcohol which has not been subsumed under GST.

VIII. LIMITATION OF STUDY

As every study has certain limitation, therefore this cannot be an exception. This research conclusion suffers the problem time period study as the impact of GST on state revenue has been analysis over a short period of two which is not capable to giving a clear picture regarding its long run implications. The research may not be accurate due to following reasons: -

- GST rates are continuously changing during the FY 2016-17 and 2017-18
- GST is a consumption-based tax, therefore it may change due to changes in consumption pattern in the country.
- Changing rates may increase and decrease the quantum of GST compensation from central government to state government.
- This mechanism will continue till FY 2022-23. But after 2022-23, if any state fails then what steps would central government take is not clear till now.
- Inter- state supply to other state takes away certain part of state revenue from GST as IGST component.

REFERENCES

ONLINE INFORMATION CENTRES

[1] Press release by Finance ministry of India on 10th August, 2018 at 18:54 hours

[2] For GST awareness updates given by Central board of indirect tax and custom. https://gstawareness.cbec.gov.in/

[3] Impact of GST on entertainment media and others in pre and post GST regime- https://cleartax.in/s/media-entertainment-taxation-gst

[4] Video speech by Finance Minister https://timesofindia.indiatimes.com/business/india-business/gst-cut-from-12-to-5-on-houses-under-construction/articleshow/68143936.cms

ONLINE NEWS MEDIA

[5] Tax collected by central government in FY 2018 https://indianexpress.com/article/business/commodities/mop-up-from-levies-on-petroleum-products-centres-collection-up-57-per-cent-at-rs-1-97-lakh-crore-in-apr-dec-fy18-5194774/

[6] ICAI in its 121 point suggestion to Finance Minister. https://www.businesstoday.in/current/policy/icai-calls-for-inclusion-of-all-goods-including-fuel-alcohol-power-under-gst/story/280348.html

Class Lecture by professionals

[7] Seminar lecture on GST at Amity University by renounced person from Institute of Cost Accountant in May, 2018.

E-Books

[8] Study material issued by ICAI for CA (Final) batch 2018 https://www.icai.org/post.html?post_id=13818.

News Updates

[9] How State Budget will be fare if petrol and diesel are bought under GST regime https://www.thehindu.com/news/national/how-state-budgets-will-fare-if-petrol-diesel-are- brought-under-gst/article23871826.ece

[10] IN GST ERA, STATE GOVERNMENTS CONTROL ONLY 35% OF THEIR REVENUE: REPORT - HTTPS://WWW.BUSINESS-STANDARD.COM/ARTICLE/ECONOMY-POLICY/IN-GST-ERA-STATE-GOVTS-CONTROL-ONLY-35-OF-THEIR-REVENUE-REPORT-118122200670_1.HTML

[11] One year of GST: The successes, failure and what's next - https://economictimes.indiatimes.com/news/economy/policy/one-year-of-gst-the-successes-failures-and-whats-next-on-the-agenda/articleshow/64787124.cms

 DOI : 10.35291/2454-9150.2021.0077